

## Message Text

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17

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

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STR-04 CEA-01 L-03 H-02 PA-01 PRS-01 /096 W

----- 046888

R 190755Z AUG 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 1718

TREASURY DEPT WASHDC

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

AMEMBASSY WELLINGTON

AMCONSUL HONG KONG

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L TOKYO 12551

PASS FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, JA

SUBJECT: REPORT ON TOKYO VISIT BY TREASURY UNDER SECRETARY FOR  
MONETARY AFFAIRS EDWIN H. YEO

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1. TREASURY UNDER SECRETARY FOR MONETARY AFFAIRS EDWIN H.

YEO VISITED TOKYO AUG 10 TO 14 TO DISCUSS DOMESTIC ECONOMIC AND INTL MONETARY PROBLEMS AND PROSPECTS. HE MET WITH FINMIN OHIRA, DEPUTY PM FUKUDA, BOJ GOV MORINAGA, SENIOR OFFICIALS AT MOF, MOFA, BOJ, EPA, MITI, AS WELL AS JAPANESE BUSINESSMEN AND THE PRESS. ALL MEETINGS WERE CORDIAL AND SOME EVEN WARM. JAPANESE DISPLAYED GREAT INTEREST IN MEETING YEO, DESPITE PREOCCUPATION WITH OTHER IMPORTANT MATTERS (E.G. FUKUDA AND OHIRA IN STRUGGLING FOR LDP LEADERSHIP). THEY WERE ATTENTIVE IN LISTENING TO U.S. VIEWS, AND THERE WAS MUCH GIVE AND TAKE IN THE DISCUSSIONS.

2. EMBASSY CONSIDERS VISIT SUCCESSFUL FROM THE POINT OF VIEW OF (A) CORDIAL PERSONAL RELATIONS, (B) FURTHERANCE OF U.S. OBJECTIVES, (C) BETTER UNDERSTANDING BY JAPANESE OF THEIR ECONOMIC RESPONSIBILITIES IN THE WORLD, AND (D) MORE RELAXED ATTITUDE TO FUTURE VISITS OF U.S. FINANCIAL OFFICIALS.

3. PRESS REPORTED THAT UNDER SECRETARY YEO STRESSED THE FOLLOWING POINTS IN HIS CONVERSATIONS:

(A) REVISED MONETARY SYSTEM AGREED TO AT RAMBOULLIET, JAMAICA AND REFINED AT SAN JUAN NOW OPERATING MORE SATISFACTORILY THAN EVEN A FEW MONTHS AGO.

(B) RESPONSIBILITIES OF COUNTRIES WITH STRONG ECONOMIES (E.G. U.S., JAPAN, GERMANY) INCLUDE THE FOLLOWING ECONOMIC POLICIES:

(1) PREVENTING INFLATION BY FOLLOWING SOUND DOMESTIC POLICIES.

(2) AVOIDING IMPORTED INFLATION BY ALLOWING FOREX RATE TO BE INFLUENCED BY MARKET FORCES RATHER THAN INTERVENTION WHICH UNDER THE OLD BRETTON WOODS SYSTEM RESULTED IN INFLATION FOR THE STRONG ECONOMIES.

(3) PERMITTING WEAK ECONOMIES TO ELIMINATE THEIR CURRENT ACCOUNT DEFICITS THROUGH INCREASED EXPORTS.

(C) RESPONSIBILITIES OF COUNTRIES WITH WEAK ECONOMIES INCLUDE:

(1) IMPLEMENTING PROPER POLICIES TO CORRECT THEIR DOMESTIC ECONOMIC PROBLEMS SO AS TO ELIMINATE INFLATION AND THEIR CURRENT ACCOUNT DEFICITS.

(2) ALLOWING FOREX RATE TO REFLECT MARKET PRESSURES AND CHANGING INTERNATIONAL COMPETITIVENESS.

(D) GREATER JAPANESE PARTICIPATION IN HIGH-LEVEL MONETARY

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CONSULTATIONS (E.G. BY MOF VMIN MATSUKAWA) AND FUTURE VISITS TO TOKYO BY YEO.

4. JAPANESE WERE PLEASANTLY SURPRISED THAT THERE WAS NO DIRECT COMMENT OR CRITICISM OF JAPAN'S VERY LARGE TRADE AND PAYMENTS SURPLUS IN CONTRAST TO VISITS BY USG OFFICIALS AT PREVIOUS PERIODS OF SIMILAR B/P STRENGTH. EMBASSY BELIEVES JAPANESE IN AND OUT OF GOVT ARE BEGINNING TO ACCEPT NEED

UNDER PRESENT INTL MONETARY SYSTEM FOR COUNTRIES IN STRONG ECONOMIC CIRCUMSTANCES SUCH AS JAPAN TO ACCEPT STRONG CURRENCY POSITION AS WELL. FOR EXAMPLE, LENGTHY EDITORIAL IN NIHON KEIZAI AUG 17 CONCLUDES: "FOR THE TIME BEING, BOJ SHOULD MINIMIZE ITS INTERVENTION AIMS AT PREVENTING A SUDDEN CHANGE IN THE FOREIGN EXCHANGE RATES, AND PERMIT THE EXCHANGE RATE OF THE YEN TO FLUCTUATE ACCORDING TO TRENDS OF SUPPLY AND DEMAND AND AS MUCH AS POSSIBLE. OTHERWISE, THE VERY FAVORABLE ENVIRONMENT FOR THE EXPANSION OF WORLD TRADE, WHICH EXPANSION IS THE BIGGEST FACTOR IN THE PRESENT BUSINESS RECOVERY, MAY BE RUINED BY JAPAN ITSELF." YEN APPRECIATION FOLLOWING MARKET PRESSURES IN U.S. AND EUROPE LAST FRIDAY, ALONG WITH MORE MODEST BOJ INTERVENTION IN TOKYO THIS WEEK, HAVE RAISED YEN RATE FROM 292 LAST WEEK TO 288 ON WED. EVEN MITI MINISTER KOMOTO AND VMIN WADA (PERHAPS BOWING TO INEVITABLE MARKET PRESSURES) STATED PUBLICLY ON TUES, AUG 17 THAT A "HIGH YEN RATE SHOULD BE ACCEPTED" AND 290 YEN/DOLLAR WAS "REASONABLE" EXCHANGE RATE. AS PRESS NOTES, HOWEVER, THIS IS A TURNAROUND FROM MID-JULY POSITION WHEN KOMOTO WAS TOUTING 300 YEN/DOLLAR AS "MOST REASONABLE RATE."

5. YEO VISIT RECEIVED VERY EXTENSIVE PRESS COVERAGE, INCLUDING FRONT-PAGE REPORTS IN JAPAN ECONOMIC JOURNAL (NIHON KEIZAI SHIMBUN). EMBASSY CONSIDERS REPORTS TO BE ACCURATE AND COVERAGE OF THE "GIVE AND TAKE" DISCUSSIONS WITH OFFICIALS WAS LESS DEFENSIVE OF JAPANESE POSITION THAN USUAL. COVERAGE GENERALLY QUITE FRIENDLY TO U.S. IN A PRESS THAT COULD HAVE BEEN ANTAGONISTIC. EDITORIALS THAT ARE NOW BEGINNING TO APPEAR INDICATE CONCERN OVER SERIOUS INTL MONETARY IMBALANCES IN THE WORLD AND ESPOUSE A CONSTRUCTIVE ROLE FOR JAPAN AS ONE OF THE STRONG ECONOMIES.

6. AS YET EMBASSY HAS HAD LITTLE FEEDBACK OTHER THAN  
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EXTENSIVE PRESS REPORTING AND EDITORIAL COMMENT. LIMITED COMMENTARY BY OTHER EMBASSIES IN TOKYO HAS BEEN FAVORABLE. BRITISH WONDERED WHETHER YEO HAD BROUGHT UP CAPITAL CONTROLS AS A FACTOR IN JAPAN'S EXCHANGE RATE MANAGEMENT. AUSTRALIANS, CANADIANS AND SWISS HAVE BEEN PROBING TO LEARN WHETHER PRESS COVERAGE IS ACCURATE.  
SHOESMITH

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## Message Attributes

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